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ACCOUNTANCY AS A CONSTRUCTIVE FORCE IN BUSINESS

By CHARLES ERNEST FORSDICK

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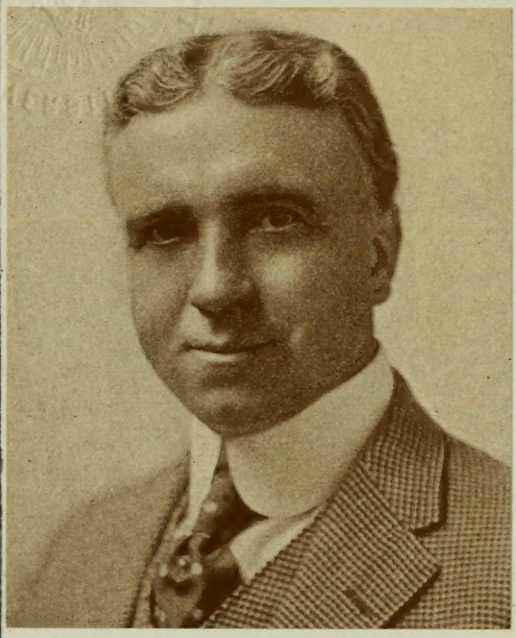

CHARLES ERNEST FORSDICK

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Born at Greenwich, England, 1871, Mr. Forsdick received his early education in the grammar schools there, later attended Morden College and the Shrewsbury Schools.

Came to the United States in 1888 and until 1893 was engaged in accounting work in the southern states; then became affiliated with the accounting department of the Lehigh Valley Railroad Company in Philadelphia, of which company he became general bookkeeper.

In 1901 Mr. Forsdick became associated with Haskins and Sells, certified public accountants in New York, with whom he remained for ten years. He became Associate at Large of the American Association of Public Accountants and a member of the Institute of Accounts, and was for four years a member of the faculty of the New York University School of Commerce, Accounts and Finance.

Mr. Forsdick has been a persistent investigator in the field of accountancy, and has travelled extensively, both in the United States and Europe. He is a progressive exponent of practical applied accounting and organization in their relation to modern business.

Mr. Forsdick is General Auditor of the Tide Water Oil Company.

NOTE:—This Lecture, which is based upon the author's ripe experience in his special field, should be read in the light of the Modern Business Text, and should be studied as an authoritative message from the field of business activity.

Accountancy as a Constructive Force in Business

By

CHARLES ERNEST FORSDICK

Business is no longer the simple affair of former years. In its present complexity, the executive who would conduct his affairs successfully, must thoroly understand all the forces which operate in the business world and must be able to gauge their effects. Clean minds and sound bodies are prerequisites of success, but there must be added a knowledge of the principles of economics, business organization and management, politics, both national and international, money and credit, and accounting. Since the average man cannot hope to become an expert in all these fields, there has arisen a demand for specialists in each line to whom the business man may have recourse in solving his problems.

The business man who feels that he can manage his business in all its phases, legal, technical or mechanical, without any resort to the advice of technically trained men, will certainly find himself in trouble or fail to get from his business all that it is

capable of producing. In the same manner the business executive who, because he can call upon specialists in every phase of business activity, feels that he need give little attention to the development of his personal ability, also courts disaster. Fortunately for American industry, most business men are expert in at least one phase of the business with which they are connected. But something more is needed—a broad general knowledge of other phases of business. Whether the executive specializes, as it were, in banking, selling, advertising, credit or some other side of business activity, he would do well to acquire a good grasp of the principles of accounting. Accounting permeates every department, division or activity of every business. No man can properly judge the results of his own work, his department's work or his company's work unless he is able to read intelligently the records which are made of the results attained.

Forces Behind Progress in Accountancy

The desire for better information, the need for correct interpretation of accounting records and the necessity for the business executive to understand accounting, has sprung both from internal need and from external pressure.

Business is subject to alternating periods of exhilaration and depression. When everything seems prosperous the executive is apt to be careless, and laxity on the part of subordinates follows. While profits are being earned no serious attempt to introduce economies, to locate leaks and stop them is

likely to be made. When business depression becomes serious, efforts are generally instituted to effect reforms. Drastic remedies, as fraught with evil as is the disease itself, are too often adopted. When the period of depression has passed the same old evils creep back and the conditions sometimes become worse than before the reforms took place. Happily this picture is gradually becoming one of the past. Changes in our banking methods promise us a respite from such acutely contrasting periods as have been experienced in the past.

Internal Needs of Business

There are, however, forces working within business itself which are gradually leading it toward better accounting. Of these perhaps the chief tendency which seems to be of a permanent character is the well-established trend toward bigger business units. Among other things this means that control thru direct personal supervision becomes less and less effective, and greater reliance must be placed upon records.

Such general tendencies are often reenforced by the condition of business at a particular time. Thus in the present juncture the sharply increasing costs of raw materials and labor lead business men to devise means by which they may see more clearly the effects of these increasing costs on their business. The business man must be certain of raising sales prices in proportion to increases in cost if he would protect his profits, and he has come to learn that he cannot pass on all increased costs to his customers

but must bring about economies which will absorb the increases in material and labor. He is using his accounts more and more as a guide in pointing out to him where, in his business, economies are possible.

External Pressure for Better Accounting

A number of exterior influences have contributed to the increasing interest of business men in the general subject of accounting. The Federal Trade Commission, thru its campaign for the development of more useful accounting methods, has done much in creating a better understanding of accounting needs among business men. National associations of manufacturers have appointed accounting and cost finding committees and have worked for the standardization of accounting and cost finding methods in their respective industries.

Even more important than these indirect influences has been the direct pressure of the government upon private business. The necessity of appropriate accounting records in order that business concerns may meet the demands made by the government grows daily. It was felt first by banks, by railroads and other public utilities whose activities were subject to government inspection and supervision, but thru the enactment of Federal income tax laws affecting individuals and corporations, the excess profits tax, and to some extent thru state legislation, the operations of practically all businesses have come within the ken of the taxing power. As nothing else has done, these taxes have brought home to the business executive the

need for adequate accounting records, and his absolute dependence upon them, for he has learned that if they are inadequate he is liable to pay the penalty in the form of enhanced taxes.

The outbreak of the European War and the consequent introduction of cost-plus contracts has compelled an increased governmental interest in accurate accounting. Not only have the concerns doing business on the cost-plus basis been compelled to install accounting systems which would meet with the approval of the governmental authorities, but in many cases the government itself has been compelled to prescribe the basis of the systems which should be followed.

Scarcely less important is the increased pressure upon the business man for better accounting records which has come from the banking fraternity. Bankers are learning to read financial statements with greater skill, and as a basis of banking accommodations are demanding greater details of business activities, profits and expenses. They do not base their judgment of loans on the relation of assets and liabilities alone, but take into consideration efficient management and prospective income and expenses.

To complete the picture, passing mention may be made of the greater demands of stockholders and investors for complete and detailed information regarding any enterprise in which they may be interested.

Accountancy's Part in Modern Business Activities

The old-fashioned business manager looked upon his accounting records as an unfortunately necessary expense which must be tolerated but which should be reduced to a minimum. He considered them chiefly as a record of his customers' accounts and he would perhaps once a year figure up from them how much he was worth. He had no thought of using his accounts as a constructive aid in operating his business and actually gave little heed to them except to scold the bookkeeper when an error occurred in a customer's account. When accounts are used solely as reference records, they are costly, and their maintenance is an expense which is more in the nature of insurance of collecting from customers than one incurred to produce income.

Operated under the proper system and intelligently used, accounting records are the most reliable guide of the executive or executives and become a faithful index of business progress. The accounting system will reflect not only total profits earned or losses realized, but in minute detail, the sources of profits, causes of expense, and the proportionate profits made on any line or division of a business. This makes it possible for the manager to reduce and eliminate unnecessary expenses, to increase the sales of profitable articles and either to curtail the sales of unprofitable articles or to reduce the cost of producing and selling them. When the details of income and

expense are compared from month to month and year to year, interesting and sometimes startling information will be picked up. The results of a single accounting period are more useful when considered in comparison with other similar periods so that one may be able to pass definite judgment upon the results of the period under consideration. Without accounting systems, statements and statistics, big business would be impossible. No manager could control and supervise all the details of more than a one-man business, without relying upon records of one kind or another, and if he is to use records he should use those which are going to be of the greatest help to him. Too much importance should not, however, be given to the view that only large enterprises need detailed records. Constructive accounting is just as possible and necessary in the smaller concerns as in the larger ones and will result in proportionately increased efficiency and profits.

The change to this new conception of constructive accounting has been gradual. We still have today, for example, some firms who look upon their accounts as records of amounts due them, other assets possessed, and amounts owed by them. Others perhaps keep records only of accounts receivable and accounts payable. A more advanced type of accounting is found in those concerns who keep reasonably accurate records thruout the year, but draw up financial statements showing the financial condition of the business and the amount of profits earned, only at the end of the year.

The next stage is that of the firm which prepares its yearly statements not solely for the purpose of showing how much the business is worth and how much profit it has earned, but also arranges these statements in comparative form and classifies the items of income and expense so that sources of profits and causes of expense for the past year may be disclosed.

Other firms still more advanced in their accounting practice prepare monthly statements, using estimated costs of production where actual costs cannot be determined, or perpetual inventory records where the latter are possible, and thus are able to know at the end of each month of the year what the tendency is for the business as a whole and also the results for each branch and division of the business.

Importance of Cost Records

Financial statements and their interpretation should be based upon accurate cost records and a thoro knowledge of what these costs mean. No organization can be successfully conducted, set sales prices, estimate or ascertain profits until costs have been determined with reasonable accuracy. The elements of cost in one business of course differ materially from those of another business, but the same principles of cost finding can be applied almost universally.

The business manager who establishes his sales price by guesswork or on the basis of incorrect costs has less than an even chance of being successful. The

danger of the use of inaccurately estimated costs recently came to my attention when I was called into consultation by the owner of a series of stores in an Eastern city. He had started in several years previous with one small store carrying only a few lines of products. He had proved successful in this venture, however, and had increased considerably the number of articles handled and had eventually opened a number of other stores in the same line.

His profit, as shown by a complete inventory at the end of the fiscal year, was greatly below his estimate, and the men who had financed his business were desirous of withdrawing their funds.

A little questioning brought to light the fact that the general manager had been figuring that he made a profit of 15 per cent of his sales price on all goods sold and had been estimating his prospective profits on this basis only. He had simply lumped everything together; overhead expenses, salesmen's salaries, rent, cost of goods, discount on purchases and losses on bad debts, and estimated that they totaled 85 per cent of his sales price.

It did not take long to show this man that he was on an entirely wrong track and how inadvisable it was to make general estimates when exact figures and details could be obtained with a slight effort. Even in the estimate of purchase costs he later found it advisable to make classifications of his product and to estimate his costs separately. He had never thought before that even tho the average profits on all goods sold might amount to 30 per cent of the sales price,

the fluctuations in quantities sold would make such a flat cost estimate an incorrect basis for figuring total costs of all goods sold.

Accounting that is 100 per cent Efficient

The essential characteristic of an accounting system that is 100 per cent efficient might be summarized under 12 headings.

1. It must be accurate in the information it gives and the statements prepared from it should be so designed as to present every phase in a fair and equitable light.

2. It should be fitted to the needs of the particular business in which it is used. Ready-made forms usually do more harm than good unless they are adjusted to meet the needs of the business to which they are applied.

3. The system and the statements should be based upon sound principles and give a clear view of the results to be attained.

4. The operation of the records should be as economical as is consistent with the maximum of information to be obtained. Useless and needless red tape should be avoided. The fact that one business goes into great detail regarding accounts receivable, for example, doesn't at all imply that some other business must follow in its footsteps. Individual conditions and requirements should always govern.

5. Reliable statistical records in other departments, such as properly prepared inventories, salary distributions and the like are essential in order that

the information they contain can be properly classified and recorded in the accounting records.

6. The cooperation of all departments in supplying correct information for the accounting records should be obtained.

7. The records and the statements should cover every department and activity of the business so that no phases will be lost sight of.

8. Monthly balance sheets and profit and loss statements should be prepared showing accurate results of the preceding month's business, and the current financial condition, together with comparisons with previous periods.

9. Supplementing these primary statements there should be provided departmental, statistical and special statements explaining the details of the factors leading up to the results shown in the monthly statements.

10. The information supplied by these statements must be furnished promptly, if productive use is to be made of it.

11. The records and the statements should include all of the activities of the business, yet should at the same time be simple enough to be understood by the men who are going to use them.

12. The last point and the one which is actually the most important as it is the ultimate result to be obtained from all the preceding essentials is, that the information drawn from the accounting records and presented in the financial statements should be used constructively and intelligently by the business execu-

tive, or the work that goes before will be wasted and useless.

Why Business Executives Must Understand Financial Statements

In a large corporation final action on all matters of policy and management rests with the board of directors. Yet not a few corporate difficulties can be traced to the lack of responsibility of the individual members of the directorate, who have accepted positions on the board without much knowledge of the particular industry or without ability to pass judgment on any phase of its work. Every executive is responsible for all or a part of his business and no executive can form sound judgments or make wise decisions without knowing the facts. In the study of their own business or of other firms they must not only be able to read financial statements as presented to them, but they must be able to go back of these statements and picture in their minds the forces and conditions leading up to the situation presented in the statements. With a proper system of accounting control, operated or supervised by a constructive thinker, a business would advance, and what might otherwise be a hopeless cause would be saved.

As an example of the good which can be accomplished when those active in the management work in conjunction or cooperation with those in charge of the accounts, the following incident is worthy of note. A manufacturing corporation in the middle west was engaged in the manufacture of a patented article, the

sale of which was bringing them a good profit. The patent was about to expire, and tho the management felt that their product had a momentum which others could not hope to overcome for many years they decided to have an experienced accountant make a thoro survey of their situation.

This survey disclosed in the first place a serious laxity in the handling of materials and supplies. No reliable store records of materials were maintained. In addition, no records had been kept of the losses sustained thru defective work, and since there was no accounting of this loss, carelessness on the part of the employes resulted, which further increased it.

As a result of this survey, methods of accounting control were introduced, the sources of losses and leaks were discovered, correct methods were instituted and, as a result, the corporation enjoyed larger profits than in the time of its patent monopoly. Competition may eventually force them to lower their prices, but they will be able also to further reduce their costs of sales because they are now using their accounting records in a constructive way.

Correct Interpretation

The interpretation of financial statements must be predicated upon a knowledge of accounting principles and statement preparation. This doesn't mean that a business executive must become an expert bookkeeper, but he should understand the principles of accounting records and account construction. He should know the proper relations which should exist

between assets and liabilities, and what proportion the various expenses should bear to the volume of business done. In addition, as he acquires experience in interpreting statements, new ideas will continually come up.

The value and use to be obtained from information studied depends upon the skill and knowledge of the investigator, the form of statement used and the purpose for which the investigation was made. The points of view from which statements are studied are those of the manager, banker and investor. It is never safe to attempt to study with more than one purpose in mind at a time. The manager, for example, studies profits first in total and then by the various subdivisions, with a view to what is needed to continue or to increase the prosperity of the business. The investor is interested solely in the security of his investment and the profits or income which he will receive. Such points of view are somewhat opposed and must influence one who studies the statements.

Correct interpretation requires sufficient data and details to enable the executive to get down to solid facts. He must have condensed statements in order to obtain a proper perspective of the business as a whole, but he needs details also. Supplementary statistical explanatory statements are almost an essential to correct interpretation. Comparative statements in which the figures are reduced to a percentage basis are absolutely necessary to show the progress, the tendencies and the conditions from period to period.

One must, however, go beyond the ascertainment

of profits and see what has become of those profits. The changes in the form of assets and liabilities from year to year point out how efficiently the financing of the business is being conducted. There would be little satisfaction in earning big profits on sales only to have these profits dissipated thru improper financing.

Avoiding Incorrect Interpretation

One must always be sure that the facts as presented are correct and that the statements are in the form needed to portray accurate results. The classification of accounts in the statements is of considerable importance. Above all, one should not roam at random thru the statements to be studied, as it is only when something is sought and expected that a true picture of conditions will be obtained.

Perhaps the most frequent error in the preparation and interpretation of statements results from unwise grouping of assets or liabilities or the classification of income and expense accounts. For example, if a balance sheet is presented as the basis for credit, in which accounts receivable are shown as a total, a banker has no means of knowing what part of such accounts are good. The group of accounts receivable may include balances due from trade debtors, amounts due from officers or subsidiary concerns and may contain any proportion of unrecoverable items.

One banker, for example, who felt it advisable to confirm the financial statement submitted to him by an applicant for a loan, discovered that in the accounts receivable and notes receivable were included sums

owing by a realty company for advances. He had accepted the balance sheet at its face value and for several years had loaned money to the undertaking on the strength of the balance sheet and the individuals who were back of the organization. It developed from this investigation that these men had embarked on ventures outside of their regular business, which had not proved profitable, and that funds had been diverted from the profitable business to the outside venture, these funds being replaced by advances from the banker. Since the realty company could not pay back its advances the banker had no real security for his loans, and had he called them, would have plunged the borrower into bankruptcy, and probably lost a good part of the money advanced. Since his investigation, tho late, was not too late, he was able to step in and induce the borrowers to cut loose from their outside venture and stick to the paying proposition, thus in time receiving back from them the loans advanced. His fault had been that of accepting at their face value grouped items in the borrowers' balance sheet.

Development of Statistical Records

Statistical records supplementing the accounting statements have broadened the scope of accountancy from the mere expression of financial debits and credits to a larger field where real productive and constructive work is done. Statistical records present results measured in physical units which frequently explain facts brought out in the accounting records,

but which are not clearly understood until more light is thrown upon them.

Statistical records have become so important that progressive firms today make plans for collecting statistical information just as carefully as they do their accounting information. Statements showing physical units produced, time records, collection results and the like are prepared by every department. These reports are forwarded currently, as often as weekly, to the executive in charge of statistical work, who summarizes them in comparative form and then studies the results portrayed. If his trained eye notes an unsatisfactory condition in the affairs of any department he reports this fact back to the department head, who can usually take remedial measures. Of course, as the department heads become familiar with these statements, they themselves make use of the information available, and frequently act before they receive the reports from the statistical head.

Still more condensed summaries of these reports, together with such comments as are necessary, are given monthly to the executive officers of the organization and are studied by them in conjunction with the financial statements. This plan not only results in increased knowledge on the part of each executive, but thru pointing out faults and wastes it frequently results in a constructive use of records which would not be possible if reliance were placed solely upon the primary accounting records.

Budgets

One of the most essential and useful of all the statistical statements prepared to supplement the regular accounting statements and to guide the executive in the formation of policies and plans for the future, is a budget. The complete budget should give a clear view of what may be expected for the ensuing accounting period. It is, in one sense of the word, an anticipation of the regular financial statements which will be prepared after the work of the period is finished.

Where budgets have been prepared in accordance with intelligent plans and are based upon accurate records and sound principles, they will become almost a control for the work of the organization during the period covered. They mark the ideal relations between income and expenses, and at least point out where excesses are dangerous as well as where safety lies. In some organizations budgets are not used at all, in others they are prepared in such condensed form that their use is greatly restricted. In very few firms has a budget been developed to the point where it covers not only estimated cash receipts and expenditures, but also income and expenses by departments or other divisions. It is of course the detailed form of budget which is most useful. Such budgets, when properly drawn up, form a very good basis for estimating the efficiency of these departments and for controlling their operations, thus helping not only the management or board of directors, but also greatly

aiding the department head himself in passing judgment upon his work.

Value of Statement Dependent Upon Accounting System

Correct financial statements which are to be used must rest on records prepared in accordance with sound accounting principles. The accounting system and resulting financial statements must be in harmony. Inaccuracies or technical errors in the system itself, or in the classification of entries made in the records, will be carried thru to the financial statements, and, of course, may lead to entirely erroneous conclusions. Under the modern conception of accounting the constructive and productive use of the information contained in the records, when presented in the form of financial statements, is now the main value in an accounting system.

The work of installing a system is not less important than the labor of devising it. It usually happens that an accounting system passes thru what might be called a series of reforms. The system which meets the needs of a small business becomes wholly inadequate as the business grows. Accounting records usually develop as the business grows, and reforms are instituted generally because the existing system fell down.

Such changes, whether large or small, should be effected with the least possible disturbance of operation. A public accountant called in for the instal-

lation of a new system will, in many cases, have to contend with an unsympathetic office organization. Opposition to change, whether within or without, seems to be inherent, and a form of mental inertia.

No system will be successful unless it has the backing of the men who are going to operate it, and the installation of new records or routine should be postponed until the bookkeepers themselves have been convinced of the value of the change. After installation, the operation of a new system should be carefully watched for some time as there will always be a tendency for the bookkeepers to go back to their old methods.

Functions of Public Accountants

Altho considerable time has elapsed since the establishment of accountacy as a profession, there still exists a great deal of misinformation among business men with regard to the certified public accountant and his mission in business life. There are three phases of his work which the general public understands thoroly, tho as a matter of fact these phases are not the most important. They are, first, the installation of systems as was mentioned above; second, the straightening out of tangled accounts, the result of inaccurate or ignorant bookkeeping, and third, the uncovering of defalcations or fraud.

As a matter of fact, the most valuable feature of the public accountant's work is the fact that his training and experience qualify him not only to pass judgment upon technical accounting features, but

also to prepare statements which are correct and give a just representation of the condition of the business.

An accountant, therefore, must not only be technically qualified to pass judgment upon the accounting records of many different lines of business, but he must also, in the course of his work, test and assure himself that the mechanical processes have been correct. He must have such an acquaintance with law as will enable him to make entries and prepare statements that do not conflict with legal requirements.

His work divides itself naturally into three divisions, namely: construction, interpretation and verification. Constructive work, as we have seen, includes the devising, installing and supervising of new accounting systems, as well as the revision or improvement of old ones. The accountant's functions here are somewhat analogous to those of an architect. He will first conduct a thoro survey of the business organization in order that he may have at hand the data necessary to devise a system of accounts that will be adequate to the peculiar needs of the particular business. No two concerns present the same problems. The plan of organization, methods of internal check or control, or relations with others will not be the same, and any system must be devised to reflect the particular conditions of the business where it is installed. Probably the most essential part of this work is that of making an accurate and intelligent survey which will fix in the mind of the accountant a clear conception of what business means.

The second division of the accountant's work—that

of interpretation—consists of interpreting the financial statements. His work here supplements that of the business executive. The accountant is usually called in for such a purpose, however, only in the event of controversies or for his expert opinion. Because of his familiarity with all lines of business and his broad acquaintance with accounting statements, he should be able to draw from them the maximum of constructive and valuable information. It is becoming more and more frequent to secure opinions of accountants as to the value of proposed investments or as to the prospects of mergers, consolidations and the like. Business men realize that while they should be able to read their own statements intelligently, they cannot bring to this work the trained observation necessary to seek out all the factors in connection with the statements of other organizations with which they are not so familiar.

The third division of the accountant's work embraces the verification of facts, commonly known as auditing. Auditors are frequently called upon to prepare statements which may be based upon records which have not been verified. A mere test of the average mechanical accuracies of books and records is not auditing, altho much of the so-called auditing consists of little more than this. Unless an auditor is able to decide whether the records and statements reveal the true financial history of the undertaking, he is little more than a checker of the mechanical accuracies of the bookkeeper's work. His value in the auditing field lies in the stamp of approval which he

puts upon the financial statements and his certification that they do reflect the exact financial conditions of the business in question. He must, therefore, take into consideration the things and the factors not recorded as well as those which are recorded.

Hence we have seen that the profession of accounting in the discharge of its functions deals only with conditions, facts and figures. It has no place for biased perversions, fancies, narrow viewpoints or false conclusions. Its importance is recognized by governments, states, municipalities, public utilities, industrial and financial corporations, firms, individuals and undertakings of every description. The public accountant has a field entirely separate from that of the business man who makes use of his accounting knowledge. Neither man duplicates the work of the other to any extent, and they both should work in unison for a common end.

The conclusions of an accountant are usually presented in the form of a report containing comments in narrative form and including such exhibits and schedules as may be necessary to bring out all facts clearly. The preparation of this report is perhaps the most difficult and yet the most important part of the accountant's work. The accountant may have no knowledge of the uses to which his report will be put. His report may be true and at the same time misleading to one not skilful in interpreting statements. Altho the accountant's legal liability is limited, his moral responsibility is not so circumscribed and his professional business reputation depends upon the

reliance which the public places in his work. Inasmuch as his report is prepared with great care, it merits careful consideration. In reading the accountant's report one must be certain that the accompanying comments or the qualifying certificate are not overlooked. Any facts not reasonably clear in the financial statements will be found covered in the comments or certificate. Nomenclature and the phraseology of certain classifications in accountants' reports have come to have a very definite meaning with which business men would do well to familiarize themselves.

Investors and bankers are beginning to make use of accountants' reports in forming their opinion of proposed investments or business ventures, tho it is still a common occurrence for capitalists to invest money in unprofitable enterprises without having taken the simple precaution of a preliminary investigation by disinterested certified public accountants. A well-known business man in New York City a short time ago was induced to invest an aggregate of almost one million dollars in the manufacture of a specialty. Prospects of profits based on the statements furnished him by the inventor seemed almost certain, and the article manufactured had sufficient merit to warrant its being widely used by railroads and telephone and telegraph companies. He was induced to make his investment by a statement which showed the results of a previous year's operations, and indicated that if the company had an adequate supply of working capital it would make gratifying increased profits.

It afterward developed that certain items which

should have been charged to revenue account had in fact been charged to capital account, concealing a loss on operations and allowing a small profit to be shown. Changed bookkeepers resulted in the proper charging of such expenditures as revenue expenses, and the operation of the business for the first year resulted in a loss of a quarter of a million dollars to this capitalist. He then decided to employ the services of an experienced accountant for the purpose of installing a cost system. The system had been in operation only a short time before it showed that the manufacturing processes were wasteful, and it was the advice of the professional accountant that it could never be made to pay. The statements prepared indicated clearly that the manufacturing costs were prohibitive in a competitive market.

Unfortunately, however, the capitalist preferred to follow the reports of his consulting engineers, which were at variance with those of the accountant. He relied for two more years on the reports of the engineers, and increased his total loss to $750,000. At the end of the third year he decided that perhaps after all the advice of the accountant was correct.

The accountant's certification of financial statements is much the same as a banker's certification of a check. My check may be good for a large amount, but a stranger would not be likely to accept it without certification. In the same way the financial statements prepared by the accountants of a business, while they may be correct in every detail, cannot be accepted at their face value by one whose acquaint-

ance with the integrity and the ability of the business managers or their accounting staff is limited. It is evident that the utmost good faith and honesty are required on the part of both public and private accountants because the banker, the investor, the stockholder and the business executive rely upon the accuracy of the information presented to them. The practice of furnishing audited statements to stockholders and others interested in a business is growing more frequent, and this tendency will do much to eradicate some of the evils which have surrounded business enterprises of the past.

Accountancy is a Basic Force in the Conduct of Business

The use of the information contained in accounting records affects closely the management and operation of every branch of a business. Accountancy is not an isolated, technical phase of business activity, but is a cohesive force reflecting the activities of every department of a business as well as the operations of the business as a whole. Production, marketing, finance, with all their divisions, could not have reached their present stage of advancement without a constant test of their work by the accounting records, and without relying upon the accounting records of the past for the development of their plans for the future. Many a business man uses accounting without knowing it, calling it experience, but the man who has a grasp of accounting principles and who realizes what his accounting records can do for him is

far better qualified to maintain the prosperity of his business and to make intelligent plans for future development.

Accounting takes a record of all the forces working in every division of a business, and not only shows the results of each separate division but binds the several divisions together, making possible a consolidation of the work of the organization as a whole. It provides the reins by which departments are controlled and the medium by which the management keeps in touch with details concerning which otherwise little or nothing would be known. Without the aid of accounting as a guide, as a record and as a control, big business of today would soon disintegrate into a series of small units and the details of operation would be kept in hit-or-miss records or in the faulty memory of the business man. The commercial progress which American business has realized would have been impossible without the concurrent development of accountancy.

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